

Message Text

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PAGE 01 RIO DE 04689 01 OF 02 261927Z

41/45

ACTION ARA-10

INFO OCT-01 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00 CIEP-01

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FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 1902

INFO AMEMBASSY BRASILIA

AMCONSUL SAO PAULO

AMCONSUL PORTO ALEGRE

LIMITED OFFICIAL USE SECTION 1 OF 2 RIO DE JANEIRO 4689

C O R R E C T E D C O P Y (EO, TAGS, SUBJ LINES ADDED)

E.O. 11652: N/A

TAGS/ IMIN, ENRG, ETRD, BR

SUBJECT: COAL SHORTAGE AND BRAZILIAN STEEL PRODUCTION

(A) BRASILIA 9249 (B) BRASILIA 9367; (C) STATE 275677

SUMMARY: ALTHOUGH BRAZIL RANKS AS THE LARGEST STEEL PRODUCER IN
LATIN AMERICA, AND PLANS TO INVEST \$11 BILLION TO TRIPLE INGOT
OUTPUT TO 22 MILLION MT BY 1979, LOCAL STEEL PRODUCTION IS
CURRENTLY SUFFERING FROM A SERIOUS COKING COAL SHORTAGE.
DOMESTIC MILLS HAVE BEEN RECEIVING ONLY ABOUT HALF THE COAL
ORDERED FROM THEIR PRINCIPAL SUPPLIER, THE U.S., WITHIN CONTRACTED
DELIVERY DATES. AS A CONSEQUENCE, DOMESTIC STEEL PRODUCTION,
WHICH HAS RECORDED NO LESS THAN 8.5 PERCENT GROWTH RATES DURING
EACH OF THE PAST FIVE YEARS, WILL INCREASE NO MORE THAN SIX
PERCENT IN 1974. MOREOVER, THE THREE BIG GOB-OWNED MILLS, WHICH
USE COKING COAL, MAY SHOW NO TOTAL PRODUCTION INCREASE THIS
YEAR BECAUSE OF THE NEED TO UTILIZE GREATER AMOUNTS OF LOW-GRADE
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PAGE 02 RIO DE 04689 01 OF 02 261927Z

DOMESTIC COAL IN PLACE OF IMPORTS. SHORTFALL IN DOMESTIC STEEL

PRODUCTION OF NEARLY ONE MILLION MT FROM ANTICIPATED 1974 LEVEL IS CONTRIBUTING SIGNIFICANTLY TO RECORD STEEL IMPORTS IN EXCESS OF \$1.5 BILLION PROJECTED FOR THIS YEAR. EMBASSY BRASILIA CONCURS THIS MESSAGE. END SUMMARY.

1. BRAZIL'S INGOT PRODUCTION FOR FIRST 11 MONTHS OF 1974 REFLECTS AN INCREASE OF 5.8 PERCENT OVER COMPARABLE 1973 PERIOD, A TREND WHICH IS EXPECTED TO CONTINUE THROUGH DECEMBER. THIS COMPARES WITH ANNUAL GROWTH RATES OF NO LESS THAN 8.5 PERCENT IN FIVE PRECEDING YEARS. THE THREE LARGE INTEGRATED GOB MILLS WHICH USE METALLURGICAL COAL TO PRODUCE COKE FOR THEIR BLAST FURNACES ACCOUNT FOR ALMOST HALF THE COUNTRY'S STEEL PRODUCTION. FOR JAN-NOV 1974, THEIR COMBINED PRODUCTION SHOWED SAME LEVEL OF PRODUCTION AS THAT OF COMPARABLE 1973 PERIOD. IN FACT, OUTPUT BY TWO OF THE THREE MILLS DECREASED BY 10 PERCENT. (CSN PRODUCED 1.3 MILLION MT, USIMINAS 1.1 MILLION MT AND COSIPA 0.7 MT, COMPARED TO 1.4 MILLION MT, 1.2 MILLION MT, AND 0.5 MILLION MT, RESPECTIVELY, DURING FIRST 11 MONTHS OF 1973.)

2. FROM ALL ACCOUNTS, PRINCIPAL REASON FOR THIS YEAR'S DISAPPOINTING PERFORMANCE HAS BEEN SHORTAGE OF IMPORTED COKING COAL, COMPELLING MILLS TO UTILIZE GREATER AMOUNTS OF LOW-GRADE NATIONAL COAL. FIGURES FROM CSN, BRAZIL'S LARGEST STEEL PRODUCER, CERTAINLY BEAR THIS OUT. CSN PRODUCED 72,361 MT OF PIG IRON IN OCTOBER 1973, A DECLINE OF 25 PERCENT FROM PREVIOUS OCTOBER'S OUTPUT, AND PRODUCED 848,224 MT DURING JANUARY-OCTOBER 1974 PERIOD, A DROP OF 8 PERCENT FROM LEVEL ACHIEVED FIRST 10 MONTHS OF 1973. CSN ALSO PRODUCED 109,111 MT OF INGOT STEEL DURING OCTOBER OF THIS YEAR AND 1,189,242 MT FOR JAN-OCT PERIOD, 21 PERCENT AND 9 PERCENT DECLINS FROM COMPARABLE 1973 PERIODS, RESPECTIVELY. AT SAME TIME, TOTAL AMOUNTS OF COAL CONSUMED DURING OCT AND JAN-OCT 1974 PERIODS DECLINED 11 PERCENT AND TWO PERCENT, RESPECTIVELY. NATIONAL COAL CONSUMED BY CSN IN OCTOBER 1974 WAS 57 PERCENT OF TOTAL, COMPARED TO 28 PERCENT FOR OCTOBER 1973. NATIONAL COAL CONSUMED JAN-OCT 1974 WAS 37 PERCENT OF TOTAL. COMPARED TO 26 PERCENT FOR EQUIVALENT 1973 PERIOD. CSN APPARENTLY FACED AN EVEN TOUGHER SITUATION IN NOVEMBER THAN IT DID IN OCTOBER; PIG IRON PRODUCTION WAS 62,899 MT AND INGOT OUTPUT 95,270 MT. IN SEPTEMBER, A CSN OFFICIAL INFORMED US THAT FOR FIRST EIGHT MONTHS OF 1974, COMPANY HAD RECEIVED ONLY LIMITED OFFICIAL USE

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PAGE 03 RIO DE 04689 01 OF 02 261927Z

114,653 MT, OR 44 PERCENT, OF THE 263,300 MT OF HIGH-VOLATILE COAL CONTRACTED FOR DELIVERY BY EASTERN AND MASSEY, AND ONLY 41,973, OR 39 PERCENT, OF 106,600 MT OF LOW-VOLATILE COAL FROM MASSEY AND I.CREEK. ON OTHER HAND, 78,952 MT (80 PERCENT) OF THE 98,430 MT OF HIGH-VOLATILE COAL SCHEDULED FOR DELIVERY FROM WEGLOKOKS OF POLAND HAD ARRIVED, BUT POLISH SUPPLIES HAD ALSO BEGUN TO FALL FURTHER BEHIND CONTRACTED SCHEDULE. DURING JAN-OCT 1974, CSN RECEIVED TOTAL SHIPMENTS OF 413,100 MT

OF IMPORTED COKING COAL, OR 37 PERCENT LESS THAN FIRST 10 MONTHS OF 1973. CSN STOCKS OF IMPORTED COAL, WHICH STOOD AT 76,933 MT AT BEGINNING OF 1974, FELL TO 10,944 MT BY END OF OCTOBER.

3. UNTIL RECENTLY, DOMESTIC STEEL MILLS DID NOT TAKE BRAZILIAN METALLURGICAL COAL VERY SERIOUSLY. ALTHOUGH EXISTING RESERVES TOTAL MORE THAN 660 MILLION MT, THE GRADE IS EXTREMELY POOR AND COST OF PRODUCTION IS HIGH. UP TO A YEAR AGO, WHEN IMPORTS COST HALF THE DOMESTIC PRICE, BRAZIL'S STEEL MILLS WERE UNDERSTANDABLY RELUCTANT TO USE LOCAL COAL AND DID SO MAINLY BECAUSE OF GOVERNMENTAL PRESSURES. APART FROM PRICE CONSIDERATIONS, BENEFICIATED DOMESTIC COAL (18.5 PERCENT ASH CONTENT, 1.8 PERCENT SULFUR, 35 PERCENT VOLATILITY) PRODUCES A SUBSTANTIALLY LOWER BLAST FURNACE YIELD. CONSEQUENTLY, THE NATIONAL COAL INDUSTRY HAD BEEN STAGNATING FOR YEARS. GOB ESTABLISHES QUOTAS FOR EACH PRODUCER, AS WELL AS PRICES, NEITHER OF WHICH WERE ALTERED VERY OFTEN (QUOTAS WERE LAST RAISED 10 YEARS AGO). AS A RESULT OF COMBINED EFFECTS OF BRAZIL'S AMBITIOUS STEEL EXPANSION PROGRAM AND THE ENERGY CRISIS, GOB IS RADICALLY ALTERING ITS COAL POLICIES. (BRAZIL'S STEAM COAL IS DISCUSSED IN A DETAILED AIRGRAM ON NATIONAL COAL INDUSTRY WHICH FOLLOWS.)

4. LAST YEAR, GOB ANNOUNCED PLANS TO ENCOURAGE METALLURGICAL COAL PRODUCERS IN STATE OF SANTA CATARINA TO DOUBLE OUTPUT BY 1978. HOWEVER, MINISTER OF MINES AND ENERGY SHIGEAKI UEUI NOW HOPES TO DOUBLE PRODUCTION BY NEXT YEAR AND TO TRIPLE IT BY 1978. COAL PRODUCERS HAD ALREADY ORDERED NEW EQUIPMENT TOTALLING MORE THAN \$50 MILLION, BUT TO MEET MINISTER'S TIMETABLE, THEY WILL ALSO HAVE TO LAY ON ADDITIONAL MANPOWER. AS AN INCENTIVE FOR PRODUCERS, GOB HAS RECOMMENDED AN IMMEDIATE INCREASE OF DOMESTIC COAL SELLING PRICES, WHICH WOULD AMOUNT TO ABOUT 32 PERCENT.

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PAGE 04 RIO DE 04689 01 OF 02 261927Z

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PAGE 01 RIO DE 04689 02 OF 02 261747Z

45

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LIMITED OFFICIAL USE SECTION 2 OF 2 RIO DE JANEIRO 4689

5. DESPITE STEP-UP IN DOMESTIC PRODUCTION, COAL OUTPUT MAY NOT KEEP PACE WITH RAPID GROWTH IN STEEL MILL REQUIREMENTS. GOB INDICATED EARLIER THIS YEAR THAT DURING NEXT FIVE YEARS, WHEN INGOT PRODUCTION IS SUPPOSED TO BE TRIPLED TO ABOUT 22 MT, BRAZIL WAS TO BECOME MORE DEPENDENT THAN EVER ON IMPORTED COAL. INSTEAD OF TRADITIONAL BLEND OF 30-40 PERCENT NATIONAL COAL AND 60-70 PERCENT IMPORTED COAL TO PRODUCE COKE FOR THEIR BLAST FURNACE FEED, GOB AND DOMESTIC STEEL MILLS PLANNED TO REDUCE NATIONAL CONTENT. LAST YEAR, FOR EXAMPLE, MILLS CONSUMED ABOUT 800,000 MT (33 PERCENT) OF NATIONAL COKING COAL AND 1.6 MILLION MT OF IMPORTS. BY 1978, HOWEVER, NATIONAL METALLURGICAL COAL WAS PROJECTED TO ACCOUNT FOR ONLY 18 PERCENT OF INPUT, WITH CONSUMPTION OF 1.7 MILLION MT OF DOMESTIC AND 7.7 MILLION MT OF IMPORTED COAL. FOR 1979, CONSUMPTION WAS FORECAST AT 2.2 MILLION MT (17 PERCENT) OF NATIONAL COAL AND 10.2 MILLION MT OF IMPORTS. A PROLONGED SHORTAGE OF IMPORTED COKING COAL COUPLED WITH STEPPED-UP DOMESTIC PRODUCTION WOULD, OF COURSE, CONSIDERABLY ALTER THOSE PROJECTIONS.

6. EVEN BEFORE THIS YEAR'S PROBLEMS DEVELOPED, GOB HAD BEEN LIMITED OFFICIAL USE

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PAGE 02 RIO DE 04689 02 OF 02 261747Z

TRYING TO DIVERSIFY ITS SOURCES OF IMPORTED COKING COAL (IN 1973 THE U.S. SUPPLIED 1.5 MILLION MT VALUED AT \$61.5 MILLION F.O.B. AND POLAND SHIPPED 170,000 MT VALUED AT \$3.5 MILLION). TOWARD THAT END, BRAZIL HAS BEEN NEGOTIATING LONG-TERM PURCHASE CONTRACTS AND PARTICIPATION AGREEMENTS FOR PRODUCTION IN OTHER COUNTRIES, NOTABLY COLOMBIA, CANADA, AUSTRALIA AND POLAND. THE ONLY FIRM AGREEMENT REACHED REPOTEDLY IS WITH POLAND, WHICH IS TO SELL FOUR MILLION MT TO BRAZIL BETWEEN 1975 AND 1980.

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